~~CONFIDENTIAL~~

SENIOR INTERDEPARTMENTAL GROUP -- INTERNATIONAL ECONOMIC POLICY

11:00 a.m.
January 20, 1983
Roosevelt Room

Attendees:

Treasury
Secretary Regan
Marc Leland

Office of Vice President
Admiral Daniel Murphy

State
Secretary Shultz
W. Allen Wallis

Defense
Fred Ikle
Donald Goldstein

Justice
Jonathan Rose

Agriculture
Secretary John R. Block
Richard E. Lyng

Commerce
Lionel H. Olmer
Donald Eiss

Interior
J. Robinson West

Energy
George Bradley

CIA
Henry Rowen

25X1

USTR
Ambassador David R. Macdonald
Harvey Bale

OMB
Alton Keel
Fred Khedouri

CEA
Martin Feldstein

OPD
Edwin L. Harper
Roger B. Porter

NSC
Henry Nau
Norman Bailey, Executive Secretary
William Martin

The main topics of discussion were swapping butter for Soviet strategic materials and the status of Kuwait under the Minerals Lands Leasing Act.

Butter Barter

The Chairman asked Secretary Block to introduce the question of whether the USG should barter butter for Soviet strategic materials. Block noted that the USSR is in the market for as much as 100,000 tons of butter. To compete with current EC offers of subsidized butter, USDA has proposed that the Commodity Credit Corporation (CCC) and GSA barter CCC-owned butter at world market prices for

~~CONFIDENTIAL~~
DECLASSIFY ON: OADR

Sanitized Copy Approved for Release 2011/01/24 : CIA-RDP85M00364R000400590057-5

Soviet strategic materials for the U.S. national stockpile. Present U.S. stocks of butter are high and such a deal could reduce the surplus by one-half.

Secretary Shultz responded by saying that the State Department is against the deal. We are in the midst of trying to develop Allied control over trade with the Soviet Union and such a move would appear inconsistent to our public and to the Europeans. This issue cannot be separated from our overall concern with Soviet behavior worldwide. It must also be recognized that the Soviet Union is trying to separate the Allies on a number of important issues. With regard to the barter deal itself, the Secretary further noted that given sufficient reserves of nickel in Canada, this is not a strategic material which we are pressed to stockpile. It would be more to our advantage to have the Soviets pay cash, thereby draining their hard currency reserves. Secretary Shultz concluded by saying that in his view there are more important issues to strive for -- such as a long-term grain agreement. However, any of these deals must be done on our own terms and within the framework of the broader U.S.-Soviet relationship. Trading with the enemy must be done in a cautious manner.

Advocates of the deal then noted that if it were possible to constrain the Allies, then we should not offer the butter. France, for example, stands ready to ship the quantities desired. Thus, we would only be penalizing our farmers for symbolic reasons. USTR argued that from a pure trading perspective this deal was desirable; however, in the end, national security interest must have priority.

Those opposed noted that the foreign policy aspects of such a deal were flawed. At a time when we want to cultivate public opinion about our approach to the Soviet Union, this would be a confusing and contradictory signal. Others noted that they were against the idea of barter. If such a deal took place, it should be on cash terms.

The discussion then focused on alternatives to the barter deal. Secretary Block, for example, noted that the Irish Dairy Board might be interested in purchasing the butter although, given the present market, it was likely that it would eventually end up in the Soviet Union. He also said butter might be sold to New Zealand.

The Chairman asked Secretary Block if he could explore these and other alternative options for selling the butter and report back to the SIG-IEP. After considering the options, the issue could be prepared for a Presidential decision.

Status of Kuwait Under the Minerals Lands Leasing Act

Secretary Regan called on Secretary Watt to introduce the issue as to whether Kuwait should be found non-reciprocal under Section 1 of the MLLA.

MLLA limits the right of foreign citizens to own stock of a domestic U.S. corporation holding leases under the MLLA, if that foreign country denies "similar or like privileges to citizens or corporations of their country." The Constitution of Kuwait decrees that all natural resources are the property of the state. Foreign participation in commercial activities is permitted by law, provided that 51 percent of the stock is Kuwaiti owned. No Kuwaiti citizen owns mineral rights, and all exploration and production for oil is carried out by the Kuwait Petroleum Company. Secretary Watt indicated that the decision could go either way. On the one hand, U.S. citizens are not treated worse than Kuwaiti citizens. On the other hand, there is no reciprocity as U.S. citizens cannot own mineral rights while Kuwaiti citizens or Government can own such rights in the United States.

Secretary Shultz noted that this issue opened up a broader question of foreign government investment in U.S. companies. Governments have different interests than private citizens and corporations; therefore, it poses a different problem. At the moment, foreign government purchases are relatively minor (i.e., SOHIO, Texas Gulf and Santa Fe), and it behooves us to establish a well thought out strategy for the future. The issue of Kuwait only flags the question.

Assistant Secretary Leland noted that we have no legal powers to prohibit such purchases, and in fact, we are not even minitoring the situation from a defense, strategic or economic standpoint.

The Chairman concluded by saying that Mr. Leland should convene a group to discuss how we can strengthen the monitoring mechanism and discuss options for amending present CFIUS (Committee on Foreign Investment in the United States) legislation.

Secretary Watt indicated that he would delay making any decision on reciprocity until the study on strengthening government-controlled investment is completed.